



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General  
Offices of Audit Services

MAR 24 2005

Region VII  
601 East 12th Street  
Room 284A  
Kansas City, Missouri 64106

Report Number: A-07-04-01005

Vivianne M. Chaumont  
Director, Medical Assistance Office  
Department of Health Care Policy and Financing  
1570 Grant Street  
Denver, Colorado 80203-1818

Dear Ms. Chaumont:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Family Planning Under Managed Care" for the period October 1999 to December 2003. A copy of this report will be forwarded to the HHS action official noted on the following page for his review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to the action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act (5 U.S.C. § 552, as amended by Public Law 104-231), OIG reports issued to the Department's grantees and contractors are made available publicly to the extent information contained therein is not subject to exemptions in the Act that the Department chooses to exercise. (see 45 CFR part 5.)

If you have any questions or comments about this report, please do not hesitate to call me at (816) 426-3591, ext. 225, or Chris Bresette, Audit Manager, at (816) 426-3591, ext. 228, or through email at [Chris.Bresette@oig.hhs.gov](mailto:Chris.Bresette@oig.hhs.gov). Please refer to report number A-07-04-01005 in all correspondence.

Sincerely yours,

James P. Aasmundstad  
Regional Inspector General  
for Audit Services

Enclosures - as stated

**Direct Reply to HHS Action Official:**

Mr. Richard Allen

Centers for Medicare & Medicaid Services

Branch Chief, Region VIII

1600 Broadway, Suite 700

Denver, Colorado 80202

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**FAMILY PLANNING UNDER  
MANAGED CARE**



**MARCH 2005  
A-07-04-01005**

# ***Office of Inspector General***

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In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, Office of Inspector General, Office of Audit Services, reports are made available to members of the public to the extent information contained therein is not subject to exemptions in the Act. (See 45 CFR Part 5.)

## **OAS FINDINGS AND OPINIONS**

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed as well as other conclusions and recommendations in this report represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the awarding agency will make final determination on these matters.



## **EXECUTIVE SUMMARY**

### **BACKGROUND**

Congress established the Medicaid program under Title XIX of the Social Security Act (the Act) to pay the medical assistance costs for persons with limited income and resources. Each State administers its Medicaid program in accordance with a State plan approved by the Centers for Medicare & Medicaid Services (CMS) to ensure compliance with Federal requirements. Congress amended sections 1903(a)(5) and 1905(a)(4) of the Act to promote family planning services. Although not specified in the Act, CMS defines family planning services as services that prevent or delay pregnancy, or otherwise control family size. The Federal share, or Federal Financial participation (FFP), of providing family planning services is 90 percent (enhanced rate) of actual costs.

In Colorado, the Department of Health Care Policy and Financing (Colorado) administers the Medicaid program and is responsible for providing family planning services. Colorado determined the Medicaid family planning costs under managed care by applying two factors to managed care expenditures. Colorado developed the factors by isolating the fee-for-service costs incurred in fiscal year (FY) 1999 associated with Temporary Assistance for Needy Families (TANF) recipients and disabled recipients. Colorado divided family planning costs (numerator) by total costs (denominator) to create factors of 2.31 percent (TANF recipients) and 0.17 percent (disabled recipients).

Although Colorado did not begin claiming family planning costs under managed care until December 2001, it received \$12.4 million (Federal share) for October 1999 through December 2003. Of the \$12.4 million FFP, \$5.5 million represents the difference between the 90-percent enhanced rate and Colorado's regular FFP rates for non-family planning services (approximately 50 percent).

### **OBJECTIVE**

The objective of our audit was to determine if Colorado claimed Medicaid family planning costs under managed care in accordance with Federal laws and regulations.

### **SUMMARY OF FINDINGS**

Colorado did not claim Medicaid family planning costs under managed care in accordance with Federal laws and regulations. As a result, for the period October 1999 through December 2003, Colorado received \$1,587,305 of net overpayments that did not qualify for Federal Medicaid reimbursement because:

- The factors were based on incorrect fee-for-service data and contained unallowable family planning costs, including negative adjustments classified as paid claims and non-family planning costs. Although the factor for disabled recipients did not change materially, the 2.31 percent factor for TANF recipients should have been 1.49 percent, which caused Medicaid reimbursement to be overstated by \$1,869,659.

- Colorado calculated its Medicaid reimbursement by incorrectly reducing the Federal share of family planning costs. This problem occurred because Colorado did not verify the accuracy of its Medicaid reimbursement, which was understated by \$282,354.

## **RECOMMENDATIONS**

We recommend that Colorado:

- refund \$1,587,305 of net overpayments,
- ensure family planning costs are supported by accurate and reliable information, and
- verify the accuracy of family planning claims submitted for Federal reimbursement.

## **AUDITEE COMMENTS**

Colorado agreed with our findings and recommendations. Colorado's response is included in its entirety as Appendix D.

## TABLE OF CONTENTS

	Page
<b>INTRODUCTION.....</b>	<b>1</b>
<b>BACKGROUND .....</b>	<b>1</b>
Medicaid Family Planning Services .....	1
Colorado Family Planning Services.....	1
<b>OBJECTIVE, SCOPE, AND METHODOLOGY .....</b>	<b>2</b>
<b>FINDINGS AND RECOMMENDATIONS .....</b>	<b>3</b>
<b>INACCURATE FAMILY PLANNING FACTORS .....</b>	<b>3</b>
<b>FEDERAL SHARE INCORRECTLY CALCULATED.....</b>	<b>4</b>
<b>RECOMMENDATIONS.....</b>	<b>5</b>
<b>AUDITEE COMMENTS AND OIG RESPONSE.....</b>	<b>6</b>
<b>APPENDIXES</b>	
A – Medicaid Reimbursements – Family Planning Under Managed Care	
B – Calculation of Unallowable Amounts Included in Factors	
C – Incorrect Medicaid Reimbursements – Family Planning Under Managed Care	
D – Auditee Comments	



## **INTRODUCTION**

### **BACKGROUND**

#### **Medicaid Family Planning Services**

Congress established the Medicaid program under Title XIX of the Act to pay for medical assistance costs for persons with limited income and resources. Each State administers its Medicaid program in accordance with a State plan approved by CMS to ensure compliance with Federal requirements.

Congress amended sections 1903(a)(5) and 1905(a)(4) of the Act in 1972 to promote family planning services. Although not specified in the Act, CMS defines family planning services as services that prevent or delay pregnancy, or otherwise control family size (section 4270 of the State Medicaid Manual). Services include sterilization; counseling services and patient education; examination and treatment by medical professionals in accordance with applicable State requirements; laboratory examinations and tests; medically approved methods, procedures, pharmaceutical supplies, and devices to prevent conception; and infertility services, including sterilization reversals. CMS's "Title XIX Financial Management Review Guide (Number 20): Family Planning Services" (CMS Guide) provides guidance to determine if States' claims for family planning services are allowable. States receive 90-percent FFP for family planning services.

States report Medicaid expenditures on "Form CMS 64, Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program" (CMS 64). The costs claimed for Federal reimbursement must comply with Office of Management and Budget (OMB) Circular A-87, which contains principles and standards for determining costs reimbursed to State Governments.

#### **Colorado Family Planning Services**

In Colorado, the Department of Health Care Policy and Financing (Colorado) administers the Medicaid program. Colorado's Medicaid recipients receive care through either a fee-for-service delivery system or a managed care delivery system. Of the \$2.6 billion in Medicaid expenditures reported for State FY 2003, \$449 million represented managed care payments.

Colorado started its managed care program in 1994, but did not claim related family planning costs until December 2001. Colorado calculated family planning costs under managed care by applying two factors to managed care expenditures. Colorado determined the factors, with the assistance of a contractor, by isolating fee-for-service costs incurred for TANF recipients and disabled recipients. Colorado divided family planning costs by total costs to create factors of 2.31 percent (TANF recipients) and 0.17 percent (disabled recipients).

The family planning costs used to create the factors totaled \$3,874,931, which Colorado claimed under fee-for-service for FY 1999. Colorado used computer programs to identify family planning claims under fee-for-service according to diagnosis and procedures codes. The programs accessed the Medicaid Management Information System, which contained all claims

paid under fee-for-service, and produced reports indicating the claims, or portions of the claims, with family planning services (family planning reports). For inpatient services, the programs linked the diagnosis related group on the claims to a table containing predetermined amounts to be classified as family planning.

To calculate Federal Medicaid reimbursement for all medical services, Colorado subtracted the amount claimed for family planning services from the total payments for all medical services. Colorado received either 50.00- or 52.95-percent FFP of the difference for the period October 1999 through December 2003. Thus, the effect of any inaccuracies in claiming family planning services is the difference between the enhanced rate (90 percent) and the regular FFP rate (either 50.00 or 52.95 percent) of total costs.

Colorado received \$12.4 million FFP for family planning under managed care for October 1999 through December 2003. Of that amount, \$5.5 million is the difference between the 90-percent enhanced rate and the regular FFP rates (see Appendix A).

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

### **Objective**

The objective of our audit was to determine if Colorado claimed Medicaid family planning costs under managed care in accordance with Federal laws and regulations.

### **Scope**

We reviewed the factors Colorado developed that enabled the State to claim family planning costs under managed care. Specifically, we reviewed the family planning costs contained in the factors, which included amounts claimed for Federal reimbursement under fee-for-service for FY 1999. Our review also covered family planning claimed under managed care on the CMS-64s submitted for FYs 2001-2003, including a retroactive claim for FY 2000.

Our review of internal controls was limited to validating the State's methodology for calculating family planning services.

### **Methodology**

To accomplish our objective, we:

- reviewed sections 1903(a)(5) and 1905(a)(4) the Act, Federal Medicaid regulations, OMB Circular A-87, CMS's State Medicaid manual, policy memorandums, the CMS Guide, and Colorado's State Medicaid plan;
- interviewed Colorado officials regarding policies and procedures used to create the factors and to claim Medicaid family planning costs under managed care;

- reconciled the results of Colorado's family planning programs to the amounts claimed on the CMS-64s;
- verified the allowability of the claims shown on the family planning reports to the requirements of the CMS Guide; and
- verified the accuracy of the calculations Colorado made to determine its quarterly claims for Federal Medicaid reimbursement.

We performed our fieldwork at the Department of Health Care Policy and Financing offices in Denver, CO. We conducted our audit in accordance with generally accepted government auditing standards.

## **FINDINGS AND RECOMMENDATIONS**

Colorado did not claim Medicaid family planning costs under managed care in accordance with Federal laws and regulations because:

- The factors were based on incorrect fee-for-service data and contained unallowable family planning costs, including negative adjustments classified as paid claims and non-family planning costs. Although the factor for disabled recipients did not change materially, the 2.31-percent factor for TANF recipients should have been 1.49 percent.
- Colorado calculated its Medicaid reimbursement by incorrectly reducing the Federal share of family planning costs. This problem occurred because Colorado did not verify the accuracy of its Medicaid reimbursement.

As a result, for the period October 1999 through December 2003, Colorado received net overpayments of \$1,587,305 that did not qualify for Federal Medicaid reimbursement:

- \$1,869,659 because the factors were overstated and
- (\$282,354) because the Federal share was calculated incorrectly.

## **INACCURATE FAMILY PLANNING FACTORS**

### **Medicaid Claims Must Relate to the Benefits Received**

OMB Circular A-87, Attachment A, Part C(i), requires that costs submitted for Federal reimbursement be net of all applicable credits to be allowable. Also, OMB Circular A-87, Attachment A, Part C(4)(a) defines applicable credits as those receipts or reductions of expenditure-type transactions that offset or reduce expense items allocable to Federal awards as direct or indirect costs. Therefore, negative adjustments made to claims must be subtracted when calculating claims for Federal Medicaid reimbursement.

OMB Circular A-87, Attachment A, Part C(3), states that costs are allocable to a particular cost objective if the services involved are chargeable and assignable to such cost objectives in accordance with the benefits received. Further, Section 4270 of the State Medicaid Manual states: “Only items and procedures clearly provided or performed for family planning purposes may be matched at the 90-percent rate . . . .”

### **Family Planning Factors Contained Errors**

The factors Colorado developed contained unallowable family planning costs. Although the factor for disabled recipients did not change materially, the 2.31-percent factor for TANF recipients should have been 1.49 percent. Of the family planning costs included in the factors, \$1,210,005 of the \$3,874,931 was incorrect because:

- Colorado treated \$1,060,984 of negative adjustments as paid claims. When Colorado determined family planning costs under fee-for-service, it added adjustment amounts for inpatient services that should have been subtracted.
- Colorado incorrectly included \$149,021 of non-family planning costs. Colorado classified total claim payments for inpatient services that should have been separated into family planning and non-family planning costs.

An explanation of how the unallowable amounts were calculated is presented as Appendix B.

### **Factors Based on Inaccurate Family Planning Fee-for-Service Data**

The factors were inaccurate because Colorado based the rates on incorrect fee-for-service data. These problems are addressed further in our review of “Medicaid Family Planning Costs Claimed Under Fee-for-Service” (A-07-04-01008).

### **Medicaid Reimbursement \$1,869,659 Overstated**

As a result, Colorado received overpayments of \$1,869,659 that did not qualify for Federal Medicaid reimbursement for the period October 1999 through December 2003. The overpayment is the difference between the 90-percent FFP and the regular FFP (approximately 50 percent). The overpayments for each fiscal year are shown on Appendix C.

## **FEDERAL SHARE INCORRECTLY CALCULATED**

### **Federal Share of Family Planning Equals 90 Percent of Total Costs**

Pursuant to section 1903(a) of the Act, States receive 90 percent “. . . of the sums expended during such quarter which are attributable to the offering, arranging, and furnishing (directly or on a contract basis) of family planning services and supplies.”

## Colorado Incorrectly Reduced the Federal Share

Colorado incorrectly calculated its Federal Medicaid reimbursement for the period March 2002 through December 2003. Colorado multiplied the Federal share of family planning costs by 90 percent, which lowered its Medicaid reimbursement by 10 percent. For example:

- The Federal share of a \$10,000 family planning claim submitted for Medicaid reimbursement should have been calculated as:

Total Family Planning Costs:	\$10,000
90-Percent FFP:	x 90 %
Federal Share:	\$9,000

- Colorado incorrectly multiplied the Federal share of planning costs by 90 percent:

Total Family Planning Costs:	\$10,000
90 Percent FFP:	x 90 %
Federal Share:	\$9,000
90-Percent (in error):	x 90 %
Federal Share Received:	\$8,100

The \$900 difference (\$9,000 - \$8,100) represents an understated claim for family planning costs.

## Medicaid Claim Calculations Not Verified

Colorado did not verify the accuracy of its Medicaid family planning reimbursement.

## Medicaid Reimbursement \$282,354 Understated

As a result, Colorado did not claim \$282,354 that qualified for Federal Medicaid reimbursement. The understated amounts for each fiscal year are shown on Appendix C.

## RECOMMENDATIONS

We recommend that Colorado:

- refund \$1,587,305 of net overpayments,
- ensure family planning costs are supported by accurate and reliable information, and
- verify the accuracy of family planning claims submitted for Federal reimbursement.

## **AUDITEE’S COMMENTS AND OIG RESPONSE**

Colorado agreed with our findings and recommendations. We commend Colorado for taking steps to develop a more reliable method for identifying family planning services and claiming family planning costs. Colorado’s response is included in its entirety as Appendix D.

# APPENDIXES

**APPENDIX A**

**MEDICAID REIMBURSEMENTS:  
FAMILY PLANNING UNDER MANAGED CARE  
STATE OF COLORADO  
OCTOBER 1999 TO DECEMBER 2003**

<b>Federal Fiscal Year</b>	<b>Family Planning @ 90%</b>	<b>Regular FFP @ 50 - 52.95%</b>	<b>Enhanced Family Planning Portion</b>
2000	\$ 2,661,543	\$ 1,478,635	\$ 1,182,908
2001	3,111,703	1,728,724	1,382,979
2002	3,070,291	1,705,717	1,364,574
2003	2,742,659	1,555,145	1,187,514
2004*	853,421	502,096	351,325
<b>TOTALS</b>	<b>\$12,439,617</b>	<b>\$6,970,317</b>	<b>\$5,469,300</b>

\* Amounts for FY 2004 only include the quarter that ended December 31, 2003.



## APPENDIX B

### **CALCULATION OF UNALLOWABLE AMOUNTS INCLUDED IN FACTORS FAMILY PLANNING UNDER MANAGED CARE STATE OF COLORADO**

Colorado based its factors on \$3.8 million of family planning costs claimed under fee-for-service for FY 1999. Of the \$3.8 million, Colorado:

- provided documentation supporting \$3,342,401 of costs incurred for December 1998 through September 1999 (10 months), and
- did not provide claim documentation supporting \$532,529 of costs incurred for October - November 1998 (2 months).

We calculated unallowable costs by (1) identifying specific overpayments in the \$3.3 million and (2) applying the percentage of costs in error for the 10 months to the \$532,529. The overpayments included:

<b>Problem</b>	<b>10 Months</b>	<b>2 Months</b>	<b>Total</b>
Negative Adjustments Treated as Paid Claims	\$1,011,864	\$49,120	\$1,060,984
Non-Family Planning Costs	142,122	6,899	149,021
<b>Total Unallowable Costs</b>			<b>\$1,210,005</b>

As a result, the factors contained \$1,210,005 of unallowable family planning costs.

**APPENDIX C**

**INCORRECT MEDICAID REIMBURSEMENTS:  
FAMILY PLANNING UNDER MANAGED CARE  
STATE OF COLORADO  
OCTOBER 1999 TO DECEMBER 2003**

<b>Federal Fiscal Year</b>	<b>Overstated Expenditures: Factor Errors</b>	<b>Understated Expenditures: Miscalculations</b>	<b>Total Expenditures In Error</b>
2000	\$386,006		\$386,006
2001	448,988		448,988
2002	479,354	(\$111,372)	367,982
2003	428,531	(131,946)	296,585
2004*	126,780	(39,036)	87,744
<b>TOTALS</b>	<b>\$1,869,659</b>	<b>(\$282,354)</b>	<b>\$1,587,305</b>

\* Amounts for FY 2004 only include the quarter that ended December 31, 2003.

# STATE OF COLORADO

## DEPARTMENT OF HEALTH CARE POLICY & FINANCING

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Executive Director

February 2, 2005

James P. Aasmundstad  
Regional Inspector General for Audit Services  
Office of Inspector General  
Offices of Audit Services  
Region VII  
601 East 12<sup>th</sup> Street, Room 284A  
Kansas City, Missouri 64106

Dear Mr. Aasmundstad:

The Department of Health Care Policy and Financing has reviewed the draft report of the "Review of Family Planning and Managed Care - Colorado" for October 1999 through December 2003 and has the following responses.

### RECOMMENDATION

We recommend that Colorado:

- Refund \$1,587,305 of net overpayments,

### DEPARTMENT RESPONSE:

**The Department agrees to refund the \$1,587,305.**

### RECOMMENDATION

We recommend that Colorado:

- Ensure family planning costs are supported by accurate and reliable information,

### DEPARTMENT RESPONSE:

**The Department agrees with this statement and developed a more reliable methodology for identifying family planning costs.**

**RECOMMENDATION**

We recommend that Colorado:

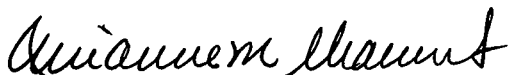
- Verify the accuracy of family planning claims submitted for Federal reimbursement,

**DEPARTMENT RESPONSE:**

**The Department agrees to verify the accuracy of family planning claims submitted for Federal reimbursement.**

We appreciate the opportunity to comment on the draft. Should you have any questions or require further information, please do not hesitate to contact me.

Sincerely,



Vivianne M. Chaumont  
Director  
Medical Assistance Office

VMC:rg

cc: Phil Reed  
Annmarie Maynard